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**The perceptions of SME owner-managers  
relating to ethics and online  
business practices.**

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*A thesis presented in partial fulfillment of the  
requirements for the degree of Master of Management  
in Management at Massey University.*

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**“Ethics is the activity of man directed to secure the inner perfection of his own personality.”**

Albert Schweitzer 1875-1965

## **Abstract**

The Internet has created many new opportunities for small-to-medium sized enterprises (SMEs) and many of these firms are encountering external pressure to have an online presence. E-commerce, however, brings a series of ethical challenges for many businesses, notably issues relating to privacy and security. These ethical challenges need to be met by SME owner-managers in order to ensure that their business competes and survives in today's hyper-competitive environment.

To date, there is very little research on ethics and online business, and the focus of this study was to investigate ethical perceptions of SME owner-managers relating to online business practices. The study was qualitative in nature and involved semi-structured interviews with twelve owner-managers of Wellington based SMEs that had an online presence.

The exploratory nature of the study meant that rich data was obtained from the twelve interviewees and the findings were grouped into three main themes for discussion, the importance of e-commerce, the underlying values and risk-tolerance of the participant owner-manager and, participant perception of ethical online issues such as privacy, security, intellectual property (IP) and online trust.

The importance of e-commerce both now and in the future was highlighted by the owner-managers, and there was also a diverse range of ethical concerns that they had with online business. These findings and subsequent discussion allowed for some interesting conclusions to be made. The complex changing nature of online ethics is highlighted, as well the notion that stakeholders have an important influence on the online ethical framework. This study also concludes that there is a gap between current legislation and an awareness of how this impacts on the owner-managers business. There is also a 'disconnect' between thought and action on the part of the owner-manager in terms addressing some of their online ethical concerns.

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## Chapter One – Introduction

*“Modern business is on the precipice of a paradigm change, one of a magnitude likely never before experienced. This new business paradigm is e-commerce”.*  
(Kracher & Corritore, 2004, p.71).

### 1.1 Background to the research

#### The importance of the Internet

The advent of the Internet has created a raft of new opportunities for businesses (Levy & Powell, 2003; Standing & Benson, 2000), and in particular opportunities for smaller businesses (Daniel, Wilson & Meyers, 2002; Poon & Swatman, 1997). Recent statistics support this assertion with 93% of NZ businesses using computers and 91% of businesses using the Internet (MED 2007). From a small business perspective the figures are 92% and 89% respectively (MED 2007). These figures imply that many businesses (both large and small) are acknowledging the importance of technology, and integrating computers and the Internet into their business. The level of Internet integration can vary markedly however, with some firms opting to have a static online presence, whilst others may have some level of e-commerce integrated into their business (McKay & Marshall, 2004).

These Internet opportunities were highlighted by Rappa (2001) who illustrated many types of business models that have evolved as a result of the Internet. These business models present opportunities for ‘new’ businesses as well as existing ‘bricks and mortar’ businesses to integrate an e-commerce or e-business facet into the business (Levy & Powell, 2003; McKay & Marshall, 2004). As such, today’s businesses can either be ‘bricks and mortar’ businesses, online businesses, or a combination of both. As a result, a real crossover is starting to emerge between traditional ‘bricks and mortar’ businesses and e-commerce (Stead & Gilbert, 2001). One prominent NZ example of this crossover is TradeMe, which since 2002 has created business opportunities for thousands of people and businesses, with some people supplementing existing businesses and others starting brand new ventures (Stock, 2007).

From a small business perspective, the Internet has also allowed smaller businesses to compete more readily with larger businesses (Al-Qirim, 2005; Dholakia & Kshetri,

2004; Schlenker & Crocker, 2003; Levenburg, 2005), especially in terms of customer reach and communication (O'Keefe, O'Connor & Kung, 1998; Poon & Swatman, 1997). Recent research also suggested that SMEs use of information and communication technology (ICT), which incorporates the use of the Internet, improved business responsiveness to customers and made business processes more efficient (MED, 2007).

But why do some small businesses adopt the Internet whilst others do not? This is a dominant theme in the literature with many studies investigating reasons why SMEs adopt the Internet (Daniel et al., 2002; Martin, 2005) whilst others studies focus on the barriers to SME Internet adoption (Fillis, Johansson and Wagner, 2003; Riemenschneider & McKinney, 2002; Stockdale & Standing, 2004). Key reasons reported for adopting the Internet include trying to gain competitive advantage (Quayle, 2002; Stead and Gilbert, 2001) and cost savings (Barry & Milner, 2002; Schneider, 2006). Some barriers to Internet adoption include limited resources (Riemenschneider & McKinney, 2002), the influence of the owner-manager (Beckinsale, Levy & Powell, 2006), and security issues (Kaynak, Tatoglu & Kula, 2005).

One thing however, that has not changed as a result of the Internet is the fact that businesses must behave ethically for long-term business success (Fritzsche, 1991). As Spence (2003) noted, online businesses must still understand right from wrong. As more and more businesses are embracing e-commerce and e-business opportunities (Martin, 2005) this has meant that ethical concerns stemming from the use of technology (and the Internet) have grown in importance in recent years (Calluzzo & Cante 2004; Stead and Gilbert, 2001).

As trading on the Internet is a relatively new phenomenon, a significant question arises from studying online ethics: Does online ethics actually constitute a new type of business ethics? (Spence, 2003). Or, is it simply a manifestation of traditional business ethics? (Kracher & Corritore, 2004). This research adopts the second perspective as the researcher takes the view that traditional business ethics and ethical behaviour still apply to online businesses, albeit in a slightly different way. As an example, e-commerce attracts intellectual property (IP) issues similar to traditional

businesses (e.g. copyright infringements), but because of the ubiquity and complexities of trading online, new legislation is required to cater for the online environment.

### **Ethics and online businesses**

Traditional studies of business ethics have focused primarily on ‘bricks and mortar’ businesses not on online businesses, or businesses with an Internet presence. Online ethics however, represents a stream of study that has emerged over the last few years and examines the impact that technology (such as the Internet) has on ethical behaviour (Fassin, 2000; Fassin, 2005; Hall & Rosson, 2006).

With such research, particular attention is given to the protection of customer data and information privacy (Bowie & Jamal, 2006; De George 1999; McCarthy, 2006; Sarathy & Robertson, 2003; Schneider, 2006) and security with online transactions (DeFago & Bockanic, 2006; Miyazaki & Fernandez, 2001). This is further illustrated by such studies that look at the issues with online shopping (Cheung & Lee, 2001; Grabner-Kraeuter, 2002; Roman, 2006), and business practices such as cookies and spam (Havelka & Neal, 2006; Palmer, 2005). Intellectual property issues are also becoming more prominent (Maury & Kleiner, 2002; Suter, Kopp & Hardesty, 2006).

The link between privacy and security is acknowledged by Shaw (2001) who also suggested that maintaining online trust and good relationships was a key way for businesses to address some of these online ethical issues. The faceless nature of the Internet however, creates difficulties for relationship-building (Durkan, Durkin & Gillen, 2003), and creates elements of distrust between online customers and businesses (Lee & Turban (2001). According to Spence (2003) the Internet has also altered the ‘social glue’ between humans.

The ethical issues with trading online are also attracting media attention. As an example, Kershaw (2007) highlighted the challenge of online security for SMEs and implied that security issues will become increasingly important in the future. In another example, recently introduced anti-spam legislation, which came into effect on the 5<sup>th</sup> of September 2007, is now impacting on individuals and businesses in an international context (“Anti-spam unit”, 2007).

This increase in the awareness of online ethics has been mirrored by an increase in the academic literature, and this is likely to remain the case in the foreseeable future, as both e-commerce and e-business activities are expected to be a principal method of communication and commerce over the coming years (Waclauski, 2000, in Stead and Gilbert, 2001). It is important to acknowledge however, that there is academic consensus that more research into online ethics must be undertaken (Bush, Ferrell, Bush & Ferrell, 2003; Kracher & Corritore, 2004). This need to gather more research into online ethics is a key driver underpinning this research.

### **The importance of SMEs**

The importance of SMEs to an economy has been highlighted by many academics in recent years. In New Zealand, Massey (2005) asserted that “the importance of small firms is recognised and the contribution that the small firms sector makes to the economy is valued” (p. vi). Recent statistics support this assertion as over 99.4% of the 346,000 businesses in NZ (excluding farms) have less than 100 employees, whilst 96.4% of businesses have twenty employees or less. This leaves less than 2,000 larger businesses that have 100+ employees (MED, 2007). The following table highlights these figures.

*Number of NZ enterprises by size: February 2006*

Number of employees	Number of businesses	% of total businesses	Cumulative %
No employees	219,964	63.6%	63.6%
1-5 employees	80,607	23.3%	86.8%
6-9 employees	18,015	5.2%	92.1%
10-19 employees	15,090	4.4%	96.4%
20-49 employees	8,172	2.4%	98.8%
50-99 employees	2,309	0.7%	99.4%
100-499 employees	1,615	0.5%	99.9%
500+ employees	319	0.1%	100.0%

*Table 1: MED, 2007*

An SME is defined differently from country to country which means that direct comparison of academic studies can be difficult. As an example, in Australia businesses with less than 200 employees are considered SMEs, whereas in UK it is less than 250 employees, and in NZ less than 20 employees (MED, 2007). For the

purpose of this NZ research, the researcher adopts the view that SMEs employ 100 or fewer people (Cameron & Massey, 1999).

## 1.2 The research question and research objectives

The drivers that have been outlined in the previous paragraphs, specifically the importance of the Internet and e-commerce, the importance of SMEs to an economy, and the growing awareness of online ethics, provide a foundation for the development of the research question and objectives. Combining these drivers then, this research will investigate SME owner-manager perceptions of online ethical issues, and explore their online business practices.

As Maxwell noted the research questions are at the “heart of the research design” (1996, p.49) and outline specifically what the researcher wants to understand by undertaking the study. The following diagram uses the initial stages of Cavana, Delahaye and Sekaran’s (2001) research process framework and illustrates the development of the overarching research question and underlying research objectives.

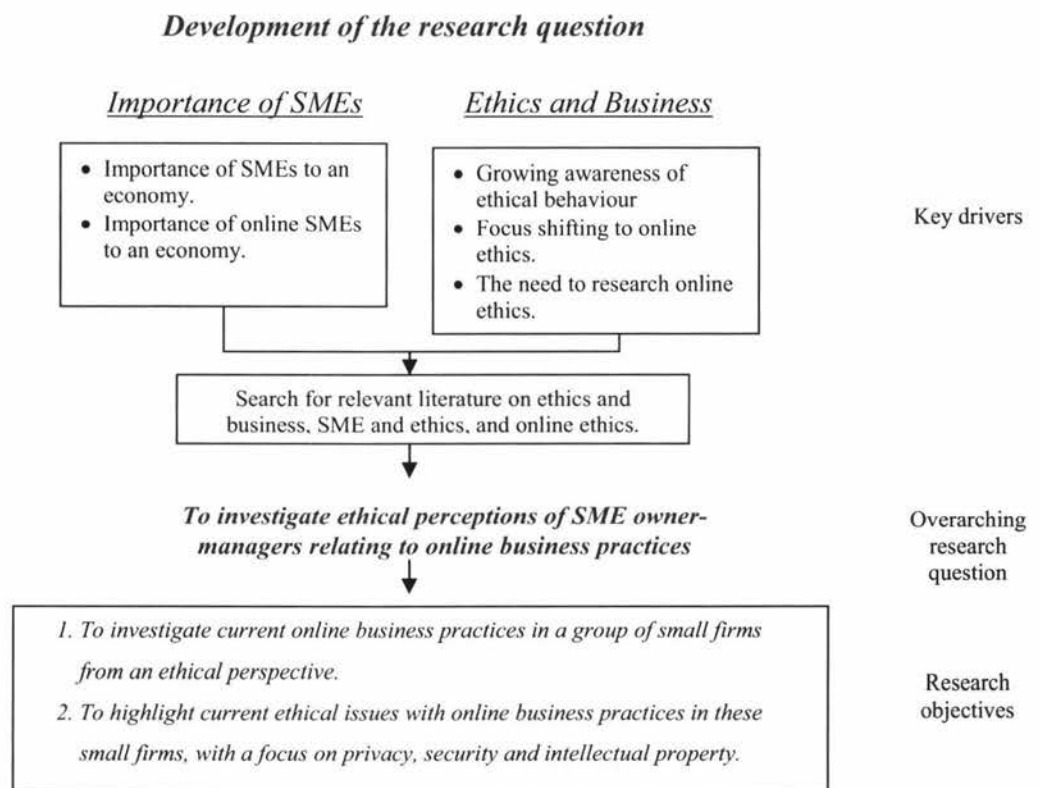


Fig. 1: Adapted from Cavana et al. (2001)

### 1.3 Thesis structure

This chapter presented the background to the research, outlined the rationale and key drivers for undertaking the research, and highlighted the research question and research objectives.

Chapter two presents the literature review which is broken down into four key areas: (1) ethics and business; (2) online business ethics; (3) online business practices and ethical issues; and (4) business ethics and SMEs.

Chapter three outlines the justification for the research design and illustrates the research framework that was used for the study. This framework describes the theoretical perspective and methodology, as well as addressing ethics, data analysis and research validity.

Chapter four summarises the results from the field research. The results are grouped into four main themes: (1) profiles of the participants and their business; (2) importance of e-commerce; (3) underlying business ethics of the participant SME owner-manager; and (4) online issues from an ethical perspective.

Chapter five discusses the findings outlined in chapter four. The discussion is broken into three main themes: (1) importance of e-commerce; (2) underlying business ethics of the participant SME owner-manager; and (3) online issues from an ethical perspective.

Chapter six makes five main conclusions as a result of the findings and discussions. These conclusions relate to ethical complexity and change, legislative attentiveness, stakeholder influence and, e-commerce integration and ethical awareness. The last conclusion considers issues relating to thought versus action. Potential areas for further research are also identified.

